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ABSTRACT

The major problem facing educational administrators in the next decade will be the need to control costs within the context of reduced resources. This paper, by centering its discussion around the problem of declining enrollments, discusses the role of administrators in educational finance. Restrictions to cost control in Canadian schools are defined as the values and attitudes of the present group of senior administrative personnel, collective agreements with teachers, and political and administrative decisions made in the past. These three problems are discussed in depth followed by suggestions that would modify resource allocation systems and cushion the decline and the years that follow it. Included is an explanation of an averaging formula that can predict revenue and thus improve planning. (Author/LD)

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"EDUCATIONAL FINANCES: Meeting the New Realities"

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"Educational Finances: Meeting the New Realities"

I approach this question of dealing with the problems associated with declining enrolments with some trepidation. As a member of one of the Commissions Task Forces and as a practising administrator I am well aware that the number and variety of specific problems which attend this phenomenon is such that no one presentation can hope to encompass them all. As a result it may well be that the issues I raise here are not the ones which you wish to discuss. If so, I apologize. Having said this I must go on to say that in spite of the complexity of the overall problem there are a number of easily definable areas which provide a context for the solution to the problems. It is with these that I shall attempt to deal.

Before I do so however, let me address some comments to the administrators who will have a critical role in the decisions which have to be made. These administrators although they like to think of themselves as objective and rational men and women are heavily influenced in their decision-making by their values and attitudes. The first area which must be opened to discussion therefore is the extent to which administrators of today have the values and attitudes necessary to meet the harsh realities of tomorrow.

Many if not most of us, are the administrative children of the sixties or fifties. The qualities and values which we possessed when we entered administration presumably reflected

the needs and values of the educational system when we were first appointed. These were decades when faith in power of education to provide the basis for economic growth and social mobility was at its greatest. Administrators who were innovators and experimenters were eagerly sought. The concept of the teacher as an autonomous professional was born and the administrator who could provide opportunities for the exercise of the new spirit of professionalism was prized.

The relative ease with which finance was available during this period permitted the implementation of programs and modes of organization which reflected the more open and optimistic attitudes of both public and administrators. Often experimentation and participative decision-making were viewed as ends in themselves rather than as means towards carefully articulated ends. Too often problems of resource allocation were solved by the oiling of squeaking wheels.

It appears clear that the public attitude towards both education and the profession have changed significantly in the last decade. It might be appropriate therefore to ask if the attitudes and values of those now in senior administrative positions in the educational system are compatible with the changing attitudes which are being manifest?

I leave this question open in the expectation that it will provide some grounds for discussion in the period following. Even so I shall be referring to this problem, indirectly throughout the remainder of this paper in which I attempt to identify the major problem areas.

First let us disabuse ourselves of the notion that the current difficulties of financing the education system center around declining enrolments. It was obvious even in the latter part of the 1960's that total expenditures on education were at a level which were beginning to give for concern. In 1969 Canada was spending 7.6 percent of Gross National Product on Education at a time when the United States was spending 6.3 percent, the United Kingdom 5.6 percent, with Germany and Japan the industrial grants spending only 3.6 and 4.0 percent respectively.

I am sure we can recall the dire predictions made in those days that, unless the trend were changed, expenditures on education were projected to take over the entire Gross National Product!

In Ontario the concern over costs was reflected by the introduction of ceilings in 1971. It is worth noting however the Department of Education Act had been amended in the 1968-69 session of the Legislature to give power to the Minister to make regulations which would govern school board spending. The introduction of ceilings based on this amendment, to the Act has historically the first limitation on the power of school boards in Ontario to determine the level of expenditure necessary for school operation.

The continuing concern over total education costs and the resulting debate which developed after the introduction of ceilings led to the setting up of the Committee on the Costs of Education charged with the specific purpose of conducting an analysis into

the various dimensions of educational finance. I must emphasize that these events took place at a time when total enrolment in the Ontario school system was increasing.

The interim reports of the Committee have not received wide exposure among educational administrators in the Province although even superficial reading of them reveals quite clearly the concern of both government and public over the question of escalating per student cost. This concern combined with projections of an impending decline in overall enrolments should have provided adequate evidence of a growing crisis in educational finance.

It would appear that the warnings were unheeded by administrators and legislators both at the Provincial and Municipal level.

For example, in September 1973 the minimum academic achievement for admission to the teaching profession was set at a Bachelor's Degree plus one year of Teacher Education. It required no expert at economic forecasting to recognize that this mandated increase in the level of qualifications for teachers would add substantially to the total salary bill and therefore the cost per pupil. Again as a combined result of school board policies and negotiated agreements the elementary pupil-teacher ratio continued its decline. In 1969 the per pupil-teacher ratio in Ontario elementary schools was 25.3. In 1971 it was 25. By 1974 it had shifted down marginally to 24.8 and by 1976 had reached a low of 23.5. Since teachers salaries and pupil-teacher ratios are the most important factors determining both overall and per pupil cost, it is quite clear

that staffing policies in the early 1970's were in fact contributing to the increase in educational cost without any sign that the storm clouds of the horizon had been perceived.

It seems apparent that lack of recognition of the problems of the financial future were evident also in the area of curriculum. The compulsory introduction of the credit system in the high schools in 1973 and the P1 J1 revision of 1975 both had implications for cost structure since the amount of money spent both directly and indirectly on the development of courses of study and curriculum materials designed to accommodate the new programs increased.

It is not my purpose today to discuss whether such changes in qualifications, pupil-teacher ratio and curriculum were desirable or appropriate. One may note however that by and large professional opinion from teacher organizations, administrators and government was strongly supportive of the changes. Moreover, given my initial comments on the attitudes and values of those in administrative positions, it was not surprising that it should be so.

Had enrolments continued to increase throughout the 70's the growing concern with the cost of education might well have resulted in a fiscal crisis even worse than the one we currently face. Continued increases in the cost per student combined with an increase in the number of students would have resulted in an almost insupportable burden on public sector even if the economy had remained strong. Given our present economic reality we can be forgiven if we claim that the decline in enrolments has helped

rather than hindered the problem of financing the school system.

Nor is the future outlook any brighter. The Ontario Economic Council has forecast slower rates of economic growth in the next decade with continuing high levels of unemployment and relatively high levels of inflation. David Foot in a working paper prepared for the Commission on Declining Enrolments reviewed projections of economic growth in Ontario and their implications for Provincial-Municipal finance (Foot, 1978). After examining the implications he concludes "consequently, over the next decade these projections suggest that school boards in Ontario should be planning for negative "real" growth in their receipts from the Provincial Government" (page 27). Moreover it would appear that the current negative reaction towards Government expenditures as a whole will not make it easier for school boards to meet any shortfall in their revenue requirements from the Municipal property tax. Whether or not the movement spearheaded by California's proposition 13 should be interpreted as a reaction against Government expenditures as a whole or against the property tax itself is a moot point. In the short run, however, the result is the same.

From what has been said above therefore it becomes evident that one of the most significant areas of the problem is that the quantity of resources available now and in the medium future to support the public sector as a whole and the public education system in particular will be considerably less than that which is considered desirable and necessary by the profession.

The projected decline in the level of resources to be made available for the support of the public school system permits us to identify the second major problem area. It seems to follow that policy formation should be directed toward identification of solutions which recognize the importance of cost control. Unfortunately for many proper appreciation of the need for cost control tends to eliminate automatically the simplest solutions to the problem of declining enrolments. We cannot solve our difficulties by decreasing student-teacher ratios and the developing new activities designed to increase the variety and range of problems made available because doing so would increase the need for resources which will not be there.

Moreover it is more than likely that we will be pushed towards methods of cost control which conflict with some of the basic assumptions about what is "good". For instance, we may be forced to reconsider the whole basis of teacher remuneration which tends to reflect the values and attitudes of past decades. Salary schedules of the fifties and sixties reflected two major system needs. There was a need to improve the qualifications of teachers in the system and the need to retain these teachers in the schools. As a consequence the salary grids were structured in such a way as to reward teachers for almost every step they took in improving their qualifications, and to reward them for remaining in the system. In those days the attainment of improved qualifications usually involved considerable sacrifice on the part of the teachers.

The number of institutions offering opportunities were severely limited and the offerings few and centralized. Today the situation has changed. Significantly higher minimum levels of qualification are required for entry to the profession and Canadian and foreign organizations are falling over themselves to provide opportunity for teachers to improve their qualifications with a minimum of inconvenience to the teacher. Such opportunities in continuing education are frequently provided at public expense and are reflected in an increase in the teacher's salary during the remainder of his professional life. Perhaps the time has come to reexamine the assumptions upon which additional salary for additional qualification is based.

Another illustration of the values-attitudes question is demonstrated in the area of surplus and redundancy clauses negotiated. Such clauses tend to enshrine the seniority principle, and reflect the increase in concern for the teacher as an individual as manifest in the human relations approach to administration. This concern as I recall, was in sharp contrast to the more managerial approach towards teachers reflected by some administrators of the 1930's. Again I wish to stress that I am making no value judgments as to the appropriateness or inappropriateness of this concern. I point out merely that some approaches to the surplus redundancy question may give school boards no immediate relief from financial problems and may even increase costs relative to what would be spent on staffing in their absence. For instance, priority transfer (to an

open position), priority relocation (moving back from a transfer position when an opening occurs in a regional school), and priority recall (returning to teaching when an opening occurs) all imply that a redundant teacher has priority for a vacant position that might otherwise have gone to a teacher commanding a smaller salary. Another option that of placing a teacher on permanent supply teaching at his same salary has a similar effect.

A further example of the cost control problem reflects the perceived lack of relationship between the Provincial and Municipal position. For example, a number of boards have explored the possibility of paying retirement gratuities in one form or another to teachers who avail themselves of retirement at the earliest age of eligibility. Such gratuities may improve the short run financial position of the school board, but in fact tend to transfer the cost burden from the Municipal to the Provincial level by increasing total payments out of the superannuation fund. If the Province proceeds as it has announced and includes payments in support of the superannuation fund as part of the total education bill, it is clear that the total amount available for the support of operating school systems may be further limited.

Almost every aspect of a collective agreement has cost implications. Whilst it is my experience that the implications of collective agreements and current budgets are studied quite thoroughly during the time that negotiations are in progress, I am less certain that attempts have been made to project the

implications of collective agreements into the medium or long range future. We must not forget that our ability to adjust to the current situation has already been hampered by administrative and political decisions taken in the more optimistic days of the last decade. Without careful analysis we might further restrict our ability to adapt.

This discussion suggests that cost control will become an increasingly significant aspect of adjusting to the new reality.

Because of the increased emphasis on cost control there is a need to develop among the administrators an increased sensitivity to the problems of the cost and the need for relating program to the cost. It is my experience that school administrators in Canada, are by inclination, training and experience more concerned with curriculum and program than with cost. Whilst such an orientation is entirely proper, we cannot continue to regard the alternatives as an "either/or" proposition. If school administrators are to adjust and survive in the context of the new realities, they must avail themselves of every opportunity to increase their understanding and knowledge of the problems of financing the public sector and education in particular.

From what I have said above it is clear that I believe that to a large extend our ability to cope with the problems associated with declining enrolments will be determined by our ability to control costs and to accept the inevitability of a smaller system.

Accepting these two propositions, however, does not mean that we should not attempt to influence the course of events so as to minimize disturbances. One of the most important problems in this area is the need to modify the system by which resources are distributed. These considerations are the basis for my third area of concern.

The basic assumptions and structure of the Ontario grant system have not changed from those proposed in the early 1930's in the United States. The system rests on the politically if not educationally defensible assumption that the provision of fiscal equalization is the best route to the education equalization. The Ontario system is not widely different from other systems of educational finance in Canada in this assumption.

One unfortunate result of this assumption is that the grant structure results in a direct relationship between total enrolment and total cost. That is to say any decline in enrolment is reflected in an immediate reduction in the total amount of money received in grant from the Provincial Government. The decline in total revenue received by the school board as a consequence of the declining enrolments creates hardship on a school board for two reasons. First because the total assessment of the school board does not change as rapidly as enrolment, the assessment per pupil increases and because grants are inversely proportional to assessment per pupil, the school board proportion of total expenditure will rise in the short run. I use the term short term since in the medium and long term it is quite possible for

the Provincial Government to adjust the formula in such a way as to offset this effect. The second reason is perhaps more significant.

The use of grant formulae which are immediately sensitive to enrolment ignores the fact that school operations are not as easily adjustable. Over the short run there is a "lumpiness" to educational inputs which means that the same level of educational service must be maintained to serve a numerically wide range of clients. Thus in an elementary school with 10 classrooms each enrolling 25 students and served by 1 teacher, it would be difficult to argue that because each classroom declined by 5 students (a reduction of 20 percent in enrolment) the staff complement should decline by 2. The needs of an adequate program are such that a proportionate reduction in teaching staff would involve a much greater proportion of reduction in total program. At the high school level, there is a need to maintain specialist teachers even if they are working below the optimal ratio if the degree of freedom of choice is to be maintained for students. Clearly at some point in time a continued decline in enrolment will justify some perhaps drastic reorganization of program. However, if the reorganization of program is not to take place in a crisis atmosphere, there is a need to provide some cushion against the short term effects of the direct relationship between enrolment and finance. To provide such a cushioning effect there are two pre-requisites.

The first pre-requisite is that the Provincial Government be prepared to move away from year to year budgetary policies which have characterized educational finance. The second pre-requisite is that school boards adopt a much more flexible approach to the development of staffing formulae at the school level. For instance, rather than allocate the number of teachers to a specific school in direct relationship to the number of students in that school, an approach might be taken whereby the commitment to continue operation of a school would require a definition of the education program to be offered at that school and, provided that enrolment did not fall beyond the point at which school operation no longer becomes feasible, the level of resources for the operation of the program would be continued.

Once the pre-requisites of a longer term commitment on the part of the Provincial Government and more flexibility in staffing at the local Government were met, the development of mechanisms to provide the required cushioning effect might not be too difficult.

Perhaps the simplest approach to minimizing the effect of declining enrolments over the short run is the use of averaging techniques in the determination of grants. One application of this approach might be to use current year enrolments as 1/3 or 1/4 in the computation of eligibility. For example, enrolment might be calculated as follows:

$$\text{Enrolment (for grant purposes 1978)} = \frac{\text{Enrolment in 1976}}{3} + \frac{\text{Enrolment in 1977}}{3} + \frac{\text{Enrolment in 1978}}{3}$$

This technique known as slip-year financing has been characteristic of financing post-secondary education for a number of years. At the post-secondary level it has acted as a disincentive to growth and this feature would need to be controlled carefully if applied to public elementary and secondary systems. In spite of the overall decline in enrolments in the Province there are some areas in which enrolment is still increasing. Where enrolments are increasing there is an immediate need for resources and averaging techniques applied to such districts would lead to difficulties.

Another relatively simple approach would be the use of so called base year financing. This involves identifying a base year for enrolment and grant purposes and adjusting annually by some percentage figure any change in enrolment from the base year. Thus if the enrolment in 1977 was identified as the base year and 50 percent as the adjustment percentage.

$$E_{1978} = E_{1977} \pm \left[.5 \left(E_{1978} - E_{1977} \right)\right]$$

The same priviso concerning districts with increasing enrolments must be made. Increasing enrolments require resources immediately.

Both variations of the averaging approach have decided advantages. They increase the predictability of revenue and therefore tend to improve planning. They both serve to cushion the impact of sequential years of decline. The major disadvantage of both variations is that they preserve the relationship between enrolment and program which is difficult to accept in terms of educational equity.

Such approaches would I contend permit adjustment to the new realities in a much smoother way.

We must recognize however that after the period of the decline there will be a period of relative stability. By this time it will be obvious that there are some systems or parts of systems which will be so small that they will need to be financed in an altogether different way if any attempt is to be made to provide any degree of equality of educational opportunity.

I would maintain that since education is and is likely to continue to be a Provincial responsibility under the Canadian constitution that the major onus of financing the educational service for these units should rest with the Province almost exclusively.

In previous decades the solution of the problem of providing educational service to areas of low density of population has been centralization. Whilst it is possible that decentralization of facilities might provide part of the answer, I think we must recognize that centralization of school facilities has already reached a high degree in Ontario and that the increasing cost of transportation and/or residences make further movements in this area questionable both financially and politically. An alternative might be to designate areas within the school boards as in need of special consideration. In such areas it should prove possible to identify a minimum educational program which would be financed totally by the Province. Services beyond the minimum program

deemed necessary or desirable by the local population might then be provided in a variety of ways. For instance, special levies using a similar approach to equalization to that which is more general throughout the system might be used for the purchase of additional services from the larger school board in which the area was located. Alternatively such services could be provided directly. The administration of such designated areas might fall within the jurisdiction of the county school board or might be placed in the hands of a district committee working within the general framework of the larger district.

A system as this would have elements of school administration which are currently being utilized in educational systems elsewhere. For instance, the notion of basic and supplementary programs has long been a characteristic of the administration of Hutterite schools in Alberta. The concept of identifying areas of special need within the context of overall policy is a feature of the Federal Government administration in programs such as DREE. Similarities are also evident in the administration of schools in northern Canada administered by both Provincial and Federal Governments.

I realize that I have opened up a number of controversial issues in my attempt to identify the problem areas which form part of the new reality. Perhaps a restatement of the basic argument would assist the placing of these issues in the proper perspective.

I have attempted to stress that the major problems facing administrators for the next decade have their bases in the issues of public finance rather than demographic. Declining enrolments make the financial problem both more and less difficult at the same time. They make the problem more difficult because too many potential solutions have the effect of increasing unit costs. They make the problem easier by tending to relieve what would have been an unsupportable burden.

The central problem for administrators lies therefore in the need to control costs within the context of reduced resources. I would not underestimate the difficulty of doing so for two reasons. First I believe that the values and attitudes of many of the present group of senior administrative personnel are not wholly compatible with the view of the administrative role and secondly the degree of adaptability of resource allocation in the system has been restricted by political and administrative decisions made in the past. It is also being further restricted by collective agreements which may create longer term difficulties even if they meet the needs of the moment.

While I have suggested some modifications of allocation systems which may cushion the difficulties to be faced during the decline and the years following, I do not believe that such modifications will be adequate until administrators have faced the other major problems.